

Commerce & Gaming Committee

HB 1411

Brief Description: Modernizing resident distillery marketing and sales restrictions.

Sponsors: Representatives Blake, Vick, Chapman, Jenkin, Tarleton, Young, Kirby, MacEwen, Riccelli, Pettigrew, Kloba, DeBolt, Caldier, Reeves, Peterson and Steele.

Brief Summary of Bill

- Modifies on-premises and off-premises liquor sales privileges of distilleries and craft distilleries.
- Limits the percent and number of other producers' products that distilleries and craft distilleries may offer for sale to customers, relative to their own products.
- Establishes an off-site tasting room license available for distilleries and craft distilleries, to operate up to four off-site tasting rooms each under a separate license.
- Authorizes distilleries, craft distilleries, and wineries to co-operate off-site tasting rooms, and authorizes conjoined consumption areas for distilleries, craft distilleries, wineries, and breweries whose production facility property is in direct physical proximity to each other.
- Amends the farmers market endorsement for distilleries and craft distilleries to authorize spirits sampling, subject to restrictions.
- Authorizes distilleries, craft distilleries, and spirits certificate of approval holders to provide branded promotional items of nominal value to 501(c)(3) nonprofit entities for use consistent with the entity's purpose(s).

Hearing Date: 2/4/19

Staff: Peter Clodfelter (786-7127).

Background:

License Privileges of Distilleries and Craft Distilleries.

This analysis was prepared by non-partisan legislative staff for the use of legislative members in their deliberations. This analysis is not a part of the legislation nor does it constitute a statement of legislative intent.

The Liquor and Cannabis Board (LCB) licenses people engaged in distilling (which is deemed an agricultural practice) under different license types, including the following:

- *Distiller License*. The license is for a person engaged in distilling, including blending, rectifying, and bottling. The license fee is \$2,000 per year, unless a person meets a different specific category.
- *Craft Distillery License*. The license is for distillers producing 150,000 gallons or less of spirits with at least half of the raw materials in the production grown in Washington. The license fee is \$100 per year.

The LCB also licenses commercial chemist stills, stills for educational purposes at universities, and fruit and wine distilleries. A person may alternatively manufacture spirits under a separate manufacturer's license, and a certificate of approval is available for out-of-state distillers who sell spirits to purchasers in Washington state.

A distillery or craft distillery may sell spirits of its own production for consumption off the premises. A distillery or craft distillery may also contract distilled spirits for, and sell contract distilled spirits to, holders of distillers' or manufacturers' licenses, or for export. Additionally, distilleries and craft distilleries may sell or provide customers with free 0.5 ounce or less samples of spirits, or sell adulterated samples of spirits of their own production, water, and/or ice to persons on the premises of the distillery. A person is limited to sampling no more than a total of 2 ounces of spirits on the distillery premises per day.

Any distillery or craft distillery may act as a retailer and distributor of spirits of its own production to retailers. Generally, a distillery or craft distillery acting as a distributor and retailer must comply with laws and rules applicable to distributors and retailers. A distillery or craft distillery may accept orders for spirits from customers in person at a licensed location, by mail, telephone, or the Internet (if Internet-sales privileges are requested), or by similar methods, and deliver spirits to an adult age 21 years or over subject to restrictions on hours of delivery, age-verification of the recipient, and packaging and labeling requirements.

A distillery or craft distillery may apply to the LCB for an endorsement to sell bottled spirits of its own production at a qualifying farmers market (annual fee of \$75 per farmers market). No sampling of spirits is authorized at a farmers market. Before authorizing a farmers market to allow an approved distillery or craft distillery to sell bottled spirits at retail at its farmers market location, the LCB must notify appropriate local governments and certain nearby entities and public institutions. The LCB may withdraw any farmers market authorization for any violation of liquor laws or rules.

When selling spirits in bottles to consumers for off-premises consumption, the 17 percent spirits retail license issuance fee applies to spirits sales by distilleries, but not to spirits sales by craft distilleries.

Tied House Laws and Exceptions.

Business practices and financial interests of liquor industry businesses are restricted under the so-called tied house laws. The tied house laws generally prohibit an industry member from advancing and a retailer from receiving moneys or moneys' worth under an agreement, written or unwritten, or by means of any other business practice or arrangement. The tied house laws also generally prohibit one industry member from having a direct or indirect financial interest in

another industry member or retailer, except for specific exceptions. The term "industry member" is defined as a licensed manufacturer, producer, supplier, importer, wholesaler, distributor, authorized representative, certificate of approval holder, warehouse, and any affiliates, subsidiaries, officers, directors, partners, agents, employees, and representatives of any industry member.

An exception to the tied house laws authorizes a distiller to hold a spirits, beer, and wine restaurant license for the purpose of selling liquor at a spirits, beer, and wine restaurant premises on the property on which the primary manufacturing facility of the distiller is located or on contiguous property owned or leased by the distiller. A similar exception exists for breweries and wineries.

Another exception to the tied house laws authorizes industry members to provide retailers branded promotional items that are of nominal value, singly or in the aggregate. Promotional items must be used exclusively by the retailer or its employees and may not be passed along to customers or be targeted to or appeal principally to youth. Also, domestic wineries and microbreweries may provide branded promotional items that are of nominal value, singly or in the aggregate, to a nonprofit charitable corporation or association exempt from taxation under Section 501(c)(3) of the Internal Revenue Code, for use consistent with the purpose(s) entitling the nonprofit to the exemption.

Summary of Bill:

License Privileges of Distilleries and Craft Distilleries.

The liquor sales privileges of distilleries and craft distilleries are modified. In addition to their own spirits, distilleries and craft distilleries may sell, for off-premises consumption, spirits produced by another distillery or craft distillery, or vermouth or sparkling wine products produced by a licensee in Washington state. For craft distilleries, when selling bottled spirits produced by another distillery or craft distillery for off-premises consumption, their existing exemption from the 17 percent spirits retail license issuance fee does not apply, and the craft distillery must pay the 17 percent fee on sales of these products.

Distilleries and craft distilleries may serve samples of spirits, free or for a charge, and sell servings of spirits, vermouth, and sparkling wine to customers for on-premises consumption, at the premises of the distillery indoors, outdoors, or in a combined indoor-outdoor area, and at the distillery's off-site tasting rooms. When spirits samples are served unadulterated, samples must be 0.5 ounces or less of spirits, and a person is limited to receiving or purchasing, for on-premises consumption, no more than two ounces total of spirits that are unadulterated.

Regarding sales of spirits and alcohol products for on-premises consumption, distilleries and craft distilleries may sell servings of spirits of the distillery's own production or spirits produced by another distillery or craft distillery licensed in Washington state, which must be adulterated with water, ice, other alcohol entitled to be sold or served on the licensed premises, or nonalcoholic mixers. Also, servings of vermouth and other sparkling wine products may be sold for on-premises consumption at a distillery or craft distillery.

However, if a distillery or craft distillery provides or sells spirits or other alcohol products authorized to be sold or provided to customers for on-premises or off-premises consumption that

are produced by another distillery, craft distillery, or licensee in Washington state, then at any one time no more than 25 percent of the alcohol stock-keeping units offered or sold by the distillery or craft distillery at its distillery premises and at any licensed off-site tasting rooms may be vermouth, sparkling wine, or spirits made by another distilled spirits producer or licensee. If a distillery or craft distillery sells fewer than 20 alcohol stock-keeping units of products of its own production, it may sell up to five alcohol stock-keeping units of another distillery, craft distillery, or licensee in Washington state.

Except for an event for which a private party has secured a private banquet permit, after 9:00 p.m., no person under age 21 may enter or remain on a distillery or craft distillery's premises in an area where alcohol is sampled, sold, or served, or on the premises of a distillery's licensed off-site tasting room. Any person serving or selling spirits or other alcohol authorized to be served or sold by a distillery or craft distillery must obtain a class 12 alcohol server permit. A distillery or craft distillery may also sell nonalcoholic products at retail.

The endorsement authorizing sales of spirits by a distillery or craft distillery at a qualifying farmers market is amended to include sampling privileges, subject to limitations. Sampling at a farmers market is limited to a total of no more than two ounces of spirits of the distillery or craft distillery's own production. Samples may be adulterated with ice, water, juice, or other nonalcoholic mixers. Bottles sold are for off-premises consumption only. A farmers market may restrict a distillery or craft distillery's participation to bottle sales for off-premises consumption only and prohibit sampling of spirits. If sampling is allowed, it must be in a location with an adequate line of demarcation or barrier so as to prevent people under age 21 from accessing the booth or stalls. The sampling location at the farmers market may be in proximity to an identified and approved wine or beer consumption area of the farmers market.

New License for Off-Site Tasting Rooms, and Authorization for Co-Operated Tasting Rooms and Conjoined Consumption Areas with Wineries and Breweries.

A tasting room license is established and available to distillery and craft distillery licensees. The new license authorizes the operating of an off-site tasting room at which the distillery may sample, serve, and sell spirits and alcohol products to the same extent and subject to the same limits as applies to these activities when conducted on the distillery production facility's premises. Distilleries and craft distilleries are eligible for no more than four tasting room licenses in Washington state, and each tasting room requires its own license. Tasting rooms may be indoors, outdoors, or a combined indoor-outdoor area, and are administratively tied to a licensed production facility.

The fee for the first off-site tasting room license is \$100 per annum. The fee for each additional off-site tasting room license is \$1,000 per annum. No separate license is required for the one on-site tasting room licensees may operate at their distillery production facility. Except for an event in which a private party has secured a private banquet permit, after 9:00 p.m., no person under age 21 may enter or remain on the premises of a tasting room. Any person serving or selling spirits or other alcohol authorized to be served or sold by a craft distillery must obtain a class 12 alcohol server permit.

Of the off-site tasting rooms authorized under law, any distillery, craft distillery, domestic winery, or any combination of these licensees may jointly occupy and co-operate up to two off-site locations, which may be indoors, outdoors, or in a combined indoor-outdoor location, at

which the licensees may sample, serve, and sell products of their own production and products authorized to be sampled, served, and sold under the terms of their licenses. The licensees must maintain separate storage of products and separate financials.

Additionally, any domestic brewery, microbrewery, domestic winery, distillery, or craft distillery, or any combination of these licensees, whose property parcels or buildings are located in direct physical proximity to one another may share a standing or seated tasting area for patrons to use, which may be indoors, outdoors, or a combined indoor-outdoor area. Each licensee may sample, serve, and sell products the licensee is authorized to sample, serve, and sell under the terms of their respective licenses, for on-premises consumption, in the jointly operated consumption area. Each licensee must use distinctly marked glassware or serving containers to identify the source of any product being consumed.

When operating any co-operated off-site tasting room or conjoined consumption area of production facilities, licensees must comply with the applicable laws and rules relating to retailers. Licensees must also comply with all applicable laws and rules relating to sampling and serving, as may be allowed by their license type. All licensees who participate in the authorization for joint off-site tasting rooms or the authorization for conjoined consumption areas at production facilities, must share staffing resources and if no single licensee can be reasonably identified as the source of any violation or enforcement issue, each licensee is responsible in the event of any such enforcement issues, unless the enforcement issue was due only to one licensee's conduct. Further, every person who participates in any manner in the sale or service of samples or servings of spirits must obtain a class 12 alcohol server permit, and every person who participates in any manner in the sale or service of samples or servings of beer and wine must obtain a class 12 or class 13 alcohol server permit.

Tied House Laws and Exceptions.

It is established that nothing in the "moneys' worth" prohibition in the liquor industry tied-house laws prohibits a distillery, craft distillery, or spirits certificate of approval holder from providing branded promotional items which are of nominal value, singly or in the aggregate, to a 501(c)(3) nonprofit charitable corporation or association, for use consistent with the purpose or purposes entitling the nonprofit to the exemption.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of the session in which the bill is passed.